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Service Date: March 20, 1981

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

In the Matter of the Application of)
MONTANA-DAKOTA UTILITIES, INC. for)
authority to implement the Gas Cost)
Tracking Procedure to establish in-)
creased rates for gas service.)

UTILITY DIVISION
DOCKET NO. 80.10.87
ORDER NO. 4742a

ORDER UPON RECONSIDERATION

FINDINGS OF FACT

1. On November 7, 1980 Montana-Dakota Utilities Company (MDU) filed an Application to Implement the Gas Cost Tracking Procedure as set forth in MDU tariff sheet 87-M and 88-M. The procedure provides for the raising of rates on the basis of a Current Gas Cost Tracking Adjustment and an Unreflected Gas Cost Adjustment. The Current Gas Cost Tracking Adjustment recognizes the most current gas costs available and applies them to a prior twelve-month periods' historic volumes annualized for known and measurable changes. The Unreflected Gas Cost Adjustment utilizes a deferred account to accumulate the differences in actual costs and effective rates and annualized volumes and actual volumes.

2. The matter was heard beginning at 10:00 a.m. on December 3, 1981, in Room 5000, Federal Building, U.S. Courthouse, 316 North 26th Street, Billings, Montana. No public witnesses presented

testimony at the hearing; nor were there any expert witnesses sponsored by the Montana Consumer Counsel. MDU witnesses standing cross-examination included Mr. C. Wayne Fox, Mr. David P. Price, Mr. John T. Kasper and Mr. Donald R. Ball.

3. On February 10, 1981 the Montana Public Service Commission issued Order No. 4742. The order recognized and granted an unreflected gas cost adjustment of 50.069¢ per mcf but denied the current gas cost adjustment on the grounds that the annualization procedure used by MDU was inappropriate. The order further stipulated that MDU was to present alternative methodologies for calculating the Current Gas Cost Adjustment in it's Spring, 1981 tracking filing, and that the filing should be based on the gas mix approved by this Commission in Docket No. 6695 - MDU's last general rate case.

4. On February 20, 1981 the Commission received from MDU a Motion for Reconsideration and Brief in Support thereof in regards to Order No. 4742. The motion requested Commission clarification of the following three points:

- (i) the Commission's concept of gas mix to be used in tracking procedures,
- (ii) the extent to which the Commission's concept of gas mix applies to both the Unreflected Gas Cost Adjustment and the Current Gas Cost Adjustment, and
- (iii) the Commission's interpretation of what are known and measurable changes.

5. The Commission finds that until such time as persuasive evidence to the contrary is presented the appropriate gas mix on which to base a tracking procedure is that mix last approved within the confines of a general rate case. Furthermore, that mix should apply to both the current and unreflected portions of a tracking procedure.

The purpose of requiring an approved mix of company produced to purchased gas is to provide the current rate-payer the benefit of currently available low cost gas which acts as a buffer in times of rapidly rising gas costs. The application of the approved mix solely to the current gas cost portion of a tracking procedure could defeat this purpose in that the Company could conceivably operate beyond the bounds of the approved mix and recoup all additional cost in the unreflected gas cost portion of the tracking procedure. The application of the approved mix to both portions of the tracking adjustment prevents the inadvertent circumvention of the initial intent of an approved mix.

6. As regards clarifying "known and measurable changes", the Commission's primary objection is to the use of new sources to be connected prior to the adjustment date but after production figures could be recorded and accounted for within the historical test year; that is, the Company should not annualize for new sources not having an actual production history within the test year. Use of decline curves to project declining well production is not explicitly objected to at this time.

7. It remains the intent of this Commission to devise and adopt a tracking procedure that equitably and expeditiously provides for the pass-through of rising gas costs due to the Natural Gas Policy Act of 1978. In the advent of a tracking procedure designed to satisfactorily meet the goals of equity and expedition the Commission intends to adopt an interim rate approval policy that would place new rates stemming from a tracking application into effect within ten (10) days of the hearing date of such application. The interim rate policy will provide for a timely revision in rates subject to rebate provisions should the interim rate be found to be inappropriate before issuing an order granting permanent approval.

8. Finally, in regards to the appropriate gas mix for future tracking filings, the issue will be carefully scrutinized in the Company's pending general rate case with Commission opinions and direction pertaining to this issue made manifest in the order arising from that filing.

CONCLUSIONS OF LAW

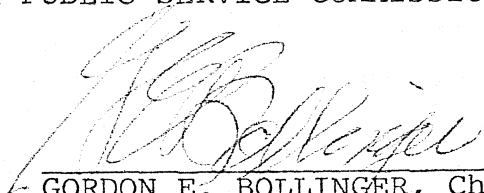
The Commission properly exercises jurisdiction over the parties and subject matter in this Motion for Reconsideration of Order No. 4742.

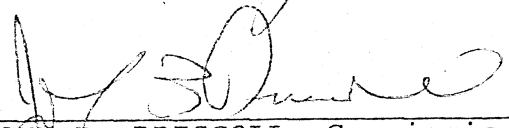
ORDER


Petitioner Montana-Dakota Utilities Company shall proceed consistent with the Findings of Fact herein and such future modifications of these procedures as the Commission shall order.

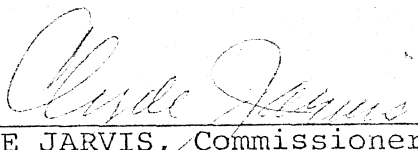
DONE AND DATED this 16th day of March, 1981, by vote of 5 to 0.


BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.


GORDON E. BOLLINGER, Chairman

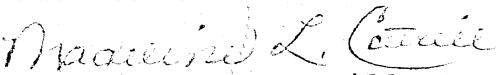

JOHN B. DRISCOLL, Commissioner


HOWARD L. ELLIS, Commissioner


CLYDE JARVIS, Commissioner


THOMAS J. SCHNEIDER, Commissioner

ATTEST:


Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38.2.4806 ARM.